AB 2050 (Caballero)
Providing Safe, Clean Affordable and Accessible Water through Governance and Service Delivery Solutions

Southern California Water Dialogue

July 25, 2018
Does SB 623/Budget Trailer Bill Provide the Best Solution?

**Concerns:**

- Economic basis for revenue is unsupported and cost allocations are inequitable
- Does **not** address root causes:
  - Perpetual subsidies for unsustainable water systems
  - Disincentive for improved efficiency or consolidation
- Other funding sources and policy considerations are available

**Revenue for Fund**

<table>
<thead>
<tr>
<th>Source</th>
<th>Revenue ($/yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>$140 M/yr</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>$14 M/yr*</td>
</tr>
<tr>
<td>Milk + CAFED</td>
<td>$16 M/yr*</td>
</tr>
</tbody>
</table>

*Reduced by ~67% after 15 years

Urban public water systems provide roughly **93%** of funding after 30 years.

Confined animal fee to be determined after bill passage. Capped at $1,000 per facility.
Does SB 623/Budget Trailer Bill Provide the Best Solution?

**Concerns:**

- Broader State goal appears to be instituting a water tax
- AB 401 – State Board Low Income Rate Assistance (UCLA 2017)
  - $4.23 to $36.49/mo. per connection
- Draft California Water Plan Update 2018 (Ch. 4 – New Funding Mechanisms)
  - “A tax or assessment, of about $10 per month ... “

**California Water Plan - $10.00/month**

**Statewide Low Income Rate Assistance - $4.23/month**

**SB 623 Water Tax - $0.95/month**

Avg Residential Customer

$15.18/mo increase = 27% fixed charge increase to representative Western Riverside County residential customer

*Based on $56/mo. water bill*
## What is the Problem We’re Trying to Solve?

### Problem and Root Causes

- As of late 2017, approximately 329 systems in the State of California chronically serve contaminated water or cannot provide reliable water service due to unsound infrastructure/operations.

- Deficiencies vary: natural contaminants, man-made contaminants, failing infrastructure.

- Majority are very small systems and small rate bases resulting in inefficient use of rate revenue.

- Inability of system owners, managers and operators to implement complex solutions, repair infrastructure, or secure external funding.

- Disadvantaged communities – ratepayer affordability.
What are the Statistical Dimensions of the Statewide Challenge?

<table>
<thead>
<tr>
<th>Non-compliant systems (Population)*</th>
<th>Number of Systems</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000 or greater</td>
<td>12</td>
<td>3%</td>
</tr>
<tr>
<td>1,000 to 9,999</td>
<td>46</td>
<td>14%</td>
</tr>
<tr>
<td>100 to 999</td>
<td>150</td>
<td>46%</td>
</tr>
<tr>
<td>Under 100</td>
<td>121</td>
<td>37%</td>
</tr>
<tr>
<td>Total =</td>
<td>329</td>
<td></td>
</tr>
</tbody>
</table>

83% of the non-compliant systems serve less than 1,000 people (~400 services)

* SWRCB State Drinking Water Data Base, November 20, 2017 database

These non-compliant community water systems cross all sectors including public agencies and schools (~40%) and privately owned or mutual water companies (~60%)
What are the Common Issues and Challenges with These Non-compliant Systems?

- Inadequate technical, financial and managerial resources
- Very high per-customer administrative overhead:
  - Overhead rates for systems serving less than 1,000 people can be > 60%
  - Systems 5,000 - 10,000 < 35%
- Regionalization and mutual aid can be overly complex/costly
- Individual consolidations important tool but require compatible host agencies

Reforming the service delivery and governance model is prerequisite to defining new long-term supplemental funding needs
Legislative Proposal: AB 2050 (Caballero)

- Co-sponsored by EMWD and the California Municipal Utilities Association - introduced February 6, 2018

- Three main components:
  1. Establish new type of public water entity (“Small System Water Authority”) in the Water Code:
     - Multiple contiguous/non-contiguous systems
     - Independent special district at county or sub-county level
     - Appointed/elected Board
     - Enhanced internal and external financial capabilities
  2. Specify process and timeline to equitably dissolve failing systems and form into newly defined public agencies that are viable and sustainable:
     - Sequential actions by State Board, qualified appointed Administrators and LAFCOs
Small System Water Authority Formation - AB 2050 (Caballero)

**State Water Resources Control Board**
- Notice of Chronic Violations
- Opportunity to Remedy
- Findings of “Chronic Non-Compliance” – Required to dissolve and merge into new public entity

**Private System Dissolution**
- System Valuation
- Dissolution of Private/Mutual Water Companies

**Local Agency Formation Commission**
- Dissolution of public agencies
- Determine merged successor agency boundary comprised of former Public Agencies, Privates and Mutual Water Companies
- Consult with SWRCB-appointed Administrator on Plan for Service development
- Formation Proceedings for New Agency- Appoints Board of Directors

**Water System in Compliance**
3. Provide Post-formation Oversight Process

- Implementation of LAFCO Plan for Service and Board elections
- Net value compensation, as appropriate, to former Private/Mutual Owners
  - Considers assets/liabilities and costs to bring system into compliance
- State Board/Controller/LAFCO provides independent review of start-up and report to the legislature
  - Two years after formation
  - Recommendations for needed supplemental funding/sources
AB 2050: Small System Water Authority – Financial Tools and Enhancements

**Internal Agency Sources**
- General Obligation (G.O.) taxing authority
- Tax-exempt Municipal debt supported by credit enhancement
- Standby charges
- Rates and Charges - enhanced by reduced overhead and economies of scale:
  - Consolidation of managerial, financial, legal, compliance, etc.
  - *Example*: reducing overhead from > 60% to < 35% of rate revenue for a 7,500 service system
  - Generates **$1.5 million/year**\(^1\) in additional *operating revenue*

**External Agency Funding**
- State grants from water bonds:
  - Proposition 1 and Proposition 68 (qualified)
  - $770 million SDW and $1.37 billion GW funding
  - DAC set-asides
- SRF No/Low-Interest Loans and Principal Forgiveness grants
- Start-up and formation funding from **$6.1 billion GF budget surplus**
  - State Safe Drinking Water Account (Environmental Protection/SWRCB)
  - LAFCO supplemental budget augmentation

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1. Assumes average Central Valley water bill of $69/mo. per CPUC “Comparative Analysis of Utility Services and Rates in California”, April 14, 2015
AB 2050: Small System Water Authority - Summary

- Merger of like entities into viable public water agency
- Participatory public governance
- Substantial reduction in number of small failing systems
- Merger provides economies of scale – frees-up operating rate revenue
- Establishes staff with technical and managerial expertise
- New internal and external financial resources
- New tool in addition to existing consolidation options

Example Grouping of Non-compliant Systems

Larger stars denote proportionately larger populations of small systems noted as “Out of Compliance” on State Water Board database.
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